

Message Text

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PAGE 01 CAIRO 14477 01 OF 02 311802Z
ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 /026 W
-----002612 311827Z /41

R 311325Z AUG 77
FM AMEMBASSY CAIRO
TO SECSTATE WASHDC 8906
INFO AMCONSUL ALEXANDRIA
AMEMBASSY DAMASCUS

C O N F I D E N T I A L SECTION 1 OF 2 CAIRO 14477

EXDIS

E.O. 11652: GDS
TAGS: ETRD, EINV, EG
SUBJECT: COCA-COLA INVESTMENT PROJECT

REF: CAIRO 8231

1. SUMMARY. COCA-COLA OFFICIAL SAM AYYOUB INDICATES SUBSTANTIAL PROGRESS BEING MADE TOWARD REALIZATION OF COMPANY'S CITRUS PROJECT. HE IS WORKING OUT DETAILS OF AGREEMENTS WITH EGYPTIAN JOINT-VENTURE PARTNERS AND O PAYING 25 PERCENT OF COKE'S SHARE OF CAPITAL OF NEW COMPANY. THESE STEPS, AYYOUB HAS BEEN GIVEN TO UNDERSTAND, WILL CLEAR WAY FOR FULL GOE SUPPORT, INCLUDING THAT OF FOMNIM FAHMY, IN HAVING COCA-COLA REMOVED FROM ARAB BOYCOTT LIST. COMPANY HAS SERVED NOTICE THAT IF BOYCOTT SANCTION NOT LIFTED BY END OF YEAR, IT WILL ABANDON EGYPTIAN PROJECT. END SUMMARY.

2. IN CALL ON AMBASSADOR AUGUST 28, COCA-COLA REP SAM AYYOUB INDICATED THAT COMPANY'S PLANS TO ESTABLISH AGRI-BUSINESS PROJECT IN EGYPT BASED ON CITRUS CULTIVATION ARE MAKING SUBSTANTIAL PROGRESS. AYYOUB SAID HE IS IN CAIRO NOW TO NEGOTIATE AGREEMENTS WITH EGYPTIAN JOINT-VENTURE PARTNERS, WHO INCLUD MSR INSURANCE CO., NATIONAL INSURANCE CO.,
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PAGE 02 CAIRO 14477 01 OF 02 311802Z

BANQUE DU CAIRE, "SICO" (BEVERAGE COMPANY WHICH FORMERLY HAD COKE FRANCHISE), AND EGYPTIAN LAND RECLAMATION CO.
(ALL ARE PUBLIC SECTOR CONCERNS.)

3. AYYOUB TOLD AMBASSADOR THAT ON HIS PREVIOUS VISIT TO EGYPT, ABOUT TWO MONTHS AGO, HE HAD RECEIVED VERY STRONG SUPPORT FROM PRIMIN SALEM, WHO INVITED AYYOUB CALL ON HIM

WHENEVER DIFFICULTIES AROSE IN CONNECTION WITH PROJECT. SALEM, WORKING THROUGH MINECON EL SAYEH, HAD HELPED BRING FRACTIOUS EGYPTIAN PARTNERS (AT LEAST ONE OF WHOM HAD PROFESSED LITTLE INTEREST IN OR KNOWLEDGE OF PROJECT) TO POINT OF SERIOUS DISCUSSIONS WITH COKE. PRIMIN HAD ALSO CONTACTED GENERAL AMIN ATTA OF BOYCOTT OFFICE IN ALEXANDRIA AND INSTRUCTED HIM COOPERATE WITH AYYOUB. ATTA, UNDER INSTRUCTIONS FROM PM, HAD BEEN QUITE ENCOURAGING. ACCORDING AYYOUB, ATTA SAID HE HAD REVIEWED FILE ON COKE CASE AND HAD CONCLUDED THAT SINCE COMPANY HAD HAD ONLY A FRANCHISE ARRANGEMENT IN ISRAEL, BOYCOTT SANCTION SHOULD NOT HAVE BEEN APPLIED. DECISION TO BOYCOTT COKE HAD APPARENTLY BEEN A POLITICAL ONE.

4. AYYOUB SAID ATTA EXPRESSED WILLINGNESS ON EARLIER TRIP TO TAKE ACTION TO HAVE BOYCOTT SANCTION LIFTED. THIS COULD BE DONE IN EITHER OF TWO WAYS: OTHER NATIONAL BOYCOTT OFFICES COULD BE SENT PROPOSAL OUTLINING GOE VIEW THAT COKE SHOULD BE REMOVED FROM BOYCOTT LIST BECAUSE OF ADVANTAGES TO EGHPT OF ITS PROJECT AND BECAUSE ORIGINAL BOYCOTT DECISION LACKED PROPER BASIS. IF A MAJORITY OF NATIONAL OFFICES EITHER RESPONDED POSITIVELY OR FAILED REPLY WITHIN 60 DAYS, LIFTING OF BOYCOTT SANCTION WOULD AUTOMATICALLY BE ACCOMPLISHED. (DESCRIPTION OF THIS PROCEDURE PARALLELS WHAT XEROX REP HAD PREVIOUSLY TOLD US, ALTHOUGH HE INDICATED REPLY TIME WAS 90 DAYS.) ALTERNATIVELY, ATTA REPORTEDLY SAID, COKE'S REMOVAL FROM BOYCOTT LIST COULD BE PROPOSED AT NEXT BOYCOTT CONFERENCE, CONFIDENTIAL

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PAGE 03 CAIRO 14477 01 OF 02 311802Z

EXPECTED TAKE PLACE IN LATE NOVEMBER. ATTA CAUTIONED AYYOUB, ACCORDING LATTER, THAT HE COULD NOT ACTI WITHOUT APPROPRIATE INSTRUCTIONS FROM GOE, HOWEVER. ATTA TOLD AYYOUB HE WOULD PREPARE MEMORANDUM ON SUBJECT, SEEKING OFFICIAL APPROVAL TO PRESS COKE CASE. AYYOUB SAID MEMO WAS IN FACT PREPARED AND HAD BEEN SUBMITTED TO FAHMY AND SALEM, AMONG OTHERS, AND SALEM HAD ALREADY INDICATED HIS APPROVAL. FAHMY, AYYOUB NOTED, HAD NEVER APPEARED BE WELL DISPOSED TOWARD COKE PROJECT, BUT WAS NO LONGER OPPOSING IT. HOWEVER, FAHMY WANTED COKE TO DEMONSTRATE ITS SERIOUSNESS OF PURPOSE BEFORE GIVING APPROVAL TO ATTA TO TAKE ACTION ON COMPANY'S BEHALF.

5. AYYOUB INDICATED TO AMBASSADOR THAT PRIMARY PURPOSE OF PRESENT TRIP WAS TO DEMONSTRATE COMPANY'S SERIOUSNESS BY CONCLUDING AGREEMENTS WITH EGYPTIAN PARTNERS AND PAYING IN 25 PERCENT OF COKE'S SHARE OF CAPITAL IN JOINT VENTURE. TOTAL EQUITY OF NEW FIRM WILL BE \$10 MILLION.

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PAGE 01 CAIRO 14477 02 OF 02 312320Z
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INFO OCT-01 ISO-00 SSO-00 NSCE-00 CIAE-00 TRSE-00
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INFO AMCONSUL ALEXANDRIA
AMEMBASSY DAMASCUS

C O N F I D E N T I A L SECTION 2 OF 2 CAIRO 14477

EXDIS

C O R R E C T E D C O P Y (CCY FOR GABL TEXT)

COKE WILL HAVE 50 PERCENT SHARE, SO HE IS PREPARED PAY
IN \$1.25 MILLION.

6. NEGOTIATIONS WITH EGYPTIANS ARE PROVING ARDUOUS, ACCORDING
AYYOUB. PRESIDENT SADAT, IN MEETING WITH COKE CHAIRMAN AUSTIN
EARLY THIS YEAR, HAD URGED COMPANY FOR POLITICAL REASONS TO
ACCEPT LESS THAN MAJORITY SHARE OF JOINT VENTURE. AUSTIN
WAS WILLING SETTLE FOR 50 PERCENT, BUT INSISTED ON MANAGEMENT
CONTROL, TO WHICH SADAT HAD AGREED. AYYOUB SAID THAT IN
CURRENT NEGOTIATIONS, EGYPTIANS HAD FINALLY, AFTER HEATED
DISCUSSION, AGREED THAT BOARD DECISIONS WOULD REQUIRE TWO-
THIRDS MAJORITY, THUS GIVING COKE ABILITY TO BLOCK ANY ACTION
OF WHICH IT DISAPPROVED (AND EVIDENTLY GIVING EGYPTIANS ABILITY
TO DO SAME). BASIC JOINT VENTURE AGREEMENT HAS NOW BEEN SIGNED,
AYYOUB SAID, BUT HE IS STILL NEGOTIATING DETAILS OF MANAGEMENT
AGREEMENT, INCLUDING FEES FOR COKE (WHICH EGYPTIANS THINK
STEEP) AND AGREEMENT ON MARKETING JOINT VENTURE'S PRODUCTS.

7. AYYOUB SAID HE IS NONETHELESS ENCOURAGED BY PROGRESS MADE
TO DATE. HE EXPECTS THAT WORKING OUT AGREEMENTS WITH EGYPTIAN
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PAGE 02 CAIRO 14477 02 OF 02 312320Z

PARTNERS AND PAYING IN OF CAPITAL WILL OPEN WAY TO APPROVAL BY
GOE FOR ATTA TO PROCEED WITH TAKING ACTION TO LIFT BOYCOTT.
AYYOUB IS DELIBERATELY AVOIDING CONTACT WITH FOREIGN MINISTRY
DURING CURRENT VISIT, BUT ASSUMES FAHMY WILL GO ALONG ON

APPROVAL ONCE STEPS NOTED ABOVE ARE TAKEN. COKE'S CAPITAL CONTRIBUTION WILL BE PLACED IN SPECIAL ACCOUNT AND COMPLETION OF TRANSFER WILL BE CONTINGENT ON RESOLUTION OF BOYCOTT PROBLEM.

8. COKE CHAIRMAN AUSTIN, AYYOUB NOTED, IS DETERMINED THAT IF BOYCOTT REMOVAL NOT ACCOMPLISHED BY DECEMBER 31, COKE WILL ABANDON EGYPTIAN PROJECT. ACCORDING AYYOUB, EGYPTIAN OFFICIALS FROM PM DOWN ARE ANXIOUS THAT THIS NOT OCCUR BECAUSE, DESPITE DECLARED GOE "PRIORITY" FOR AGRI-BUSINESS SCHEMES, COKE PROJECT APPEARED BE ONLY ONE WHICH HAD CHANCE FOR EARLY REALIZATION. AMBASSADOR SAID HE WAS PLEASED AT PROGRESS AYYOUB WAS ABLE TO REPORT ON PROJECT, AND OFFERED TALK TO FONMIN FAHMY AT NEXT OPPORTUNITY TO SUPPORT PROJECT. AYYOUB SAID HE WOULD KEEP EMBASSY INFORMED OF FURTHER DEVELOPMENTS DURING HIS CURRENT VISIT.

9. COMMENT: COKE PROGRESS ON ITS INVESTMENT PROJECT, ESPECIALLY BOYCOTT ASPECTS OF IT, IS ENCOURAGING. WE NOTE THAT DETAILS OUTLINED BY AYYOUB APPEAR REFLECT CONTINUING LACK OF COORDINATION BETWEEN FAHMY AND SALEM ON BOYCOTT MATTERS.
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